

GRAYLING HOUSING COMMISSION  
GRAYLING, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2005  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Grayling Housing Commission</i>	County <i>Crawford</i>
Audit Date <i>3/31/05</i>	Opinion Date <i>7/27/05</i>	Date Accountant Report Submitted to State: <i>8/8/05</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	J		
Reports on individual federal financial assistance programs (program audits).			J
Single Audit Reports (ASLGU).	J		

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette, CPA, PC</i>			
Street Address <i>1107 E. Eighth Street</i>		City <i>Traverse City</i>	State <i>MI</i>
Accountant Signature <i>Barry E. Gaudette, CPA</i>		ZIP <i>49686</i>	

GRAYLING HOUSING COMMISSION  
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INTRODUCTION

***Independent Auditor's Report***

Board of Commissioners  
Grayling Housing Commission  
Grayling, Michigan

We have audited the accompanying financial statements of the business-type activities of the Grayling Housing Commission, Michigan, a component unit of the City of Grayling, as of and for the year ended March 31, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Grayling Housing Commission, Michigan, as of March 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted as of March 31, 2005.

Grayling Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2005, on our consideration of Grayling Housing Commission, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise Grayling Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Grayling Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barry E. Landette, CPA, PC*

July 27, 2005

GRAYLING HOUSING COMMISSION  
GRAYLING, MICHIGAN  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**  
March 31, 2005  
=====

The Grayling Housing Commission, created in 1959, by the City of Grayling provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended March 31, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

**Financial Highlights**

The financial statements for Grayling Housing Commission consists of four programs. The first is owned housing, consisting of 88 units of public housing, the second is the capital funding program, the third is the housing choice voucher program consisting of 130 qualifying low-income residents for rental housing, and the Housing Commission also has a Homeownership Program.

Grayling Housing Commission had total revenues of \$1,128,358 that includes \$221,766 in rental payments and \$873,031 in federal assistance. Total revenues increased by \$236,854 from the prior year, in part, because of the Homeownership federal assistance increasing by \$131,821 and the Housing Choice Voucher federal assistance increasing by \$57,329 from the prior year. Total operating expenses were \$1,204,539, that includes \$460,229 in administrative expenses, \$75,807 in utilities, \$147,142 in ordinary maintenance and operation, \$395,268 in housing assistance payments, and \$82,042 in depreciation expense. The operating expenses increased by \$231,930, in part, because of increased administrative expenses in the Homeownership Program and Housing Assistance Payments to landlords over the prior year.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$1,346,248. The Housing Commission's total net assets decreased by \$76,181 from the prior year. The decrease can be attributed, in part, to the depreciation expense of \$82,042.

Total assets of the Housing Commission were \$1,571,944, of which \$313,002 consisted of current assets and \$161,202 of current liabilities. There was a net increase in total assets of \$37,450 from the prior year. The increase is due, in part, because of the interprogram receivable of \$62,769 as of March 31, 2005 compared to no interprogram receivable as of March 31, 2004.

### Financial Highlights (continued)

#### 2005 Financial Audit Economic Analysis:

In response to an analysis of the Housing Commission's overall financial position and results of operations to assess whether financial position has improved or deteriorated during the year, including reasons for significant changes from the prior year and important economic factors that significantly affected operating results.

Answer: The Grayling Housing Commission's financial position has not changed significantly from previous years. The primary change of our financial position in the near term will be use of Capital Fund money for physical renovations of its properties in the coming year. These funds in past years have been used for operations, but in the coming year it will use them to install new roofing on the majority of its buildings. The only significant change was the addition of a part-time maintenance person due to the high number of unit turnovers that were experienced during the 2004 fiscal year. The Housing Commission restrained expenditures on nonessential purchases and as a result its expenditures were slightly lower than in the prior year.

A description of significant capital assets and long-term debt activity, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

Answer: The Grayling Housing Commission has only a minor Certificate of Deposit in the amount of \$14,000 and it has no plans to tap that CD for use in the next fiscal year. At this time the Grayling Housing Commission has neither short term or long term debt.

A description of currently known facts decisions or conditions that are expected to have a significant effect on financial position or results of operations.

Answer: As stated previously, the Housing Commission will use Capital Fund's money to begin renovations at the Housing Commission. This will require the use of a higher percentage of these funds for renovations rather than for operations. Depending on the amount of money available in the next fiscal year a smaller amount will be scheduled for operations. Therefore, during the next year the Housing Commission's reserves may fall to a level lower than it has been in the past five years. There should be a short-term condition as Capital Fund's available in 2006 will be used for operations at a higher level than in 2005.



## Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- \* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- \* Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- \* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

## Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended March 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 313,002	\$ 253,242	\$ 59,760
Property and equipment	<u>1,258,942</u>	<u>1,281,252</u>	<u>( 22,310)</u>
Total assets	<u>\$1,571,944</u>	<u>\$1,534,494</u>	<u>\$ 37,450</u>
Current liabilities	\$ 161,202	\$ 55,080	\$ 106,122
Noncurrent liabilities	<u>64,494</u>	<u>56,985</u>	<u>7,509</u>
Total liabilities	<u>225,696</u>	<u>112,065</u>	<u>113,631</u>
Net assets:			
Invested in capital assets	1,258,942	1,281,252	( 22,310)
Unrestricted	<u>87,306</u>	<u>141,177</u>	<u>( 53,871)</u>
Total net assets	<u>1,346,248</u>	<u>1,422,429</u>	<u>( 76,181)</u>
Total liabilities and net assets	<u>\$1,571,944</u>	<u>\$1,534,494</u>	<u>\$ 37,450</u>

# Financial Analysis of the Housing Commission (continued)

The following table of summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended March 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
<b>Operating revenues:</b>			
Dwelling rent	\$ 221,716	\$ 245,575	\$ ( 23,859)
Nondwelling rent	<u>50</u>	<u>89</u>	<u>( 39)</u>
Total operating revenues	<u>221,766</u>	<u>245,664</u>	<u>( 23,898)</u>
<b>Operating expenses:</b>			
Administration	460,229	276,000	184,229
Tenant services	1,909		1,909
Utilities	75,807	83,223	( 7,416)
Ordinary maintenance and operation	147,142	138,373	8,769
General expenses	41,455	38,643	2,812
Extraordinary maintenance	1,587		1,587
Casualty losses	( 900)	( 2,264)	1,364
Housing assistance payments	395,268	355,831	39,437
Depreciation	<u>82,042</u>	<u>82,803</u>	<u>( 761)</u>
Total operating expenses	<u>1,204,539</u>	<u>972,609</u>	<u>231,930</u>
<b>Non-operating revenue:</b>			
Interest income	688	1,024	( 336)
Operating grants	813,299	628,257	185,042
Capital grants	59,732		59,732
Other income	<u>32,873</u>	<u>16,559</u>	<u>16,314</u>
Total nonoperating revenue	<u>906,592</u>	<u>645,840</u>	<u>260,752</u>
<b>Change in Net Assets</b>	<u>\$ ( 76,181)</u>	<u>\$ ( 81,105)</u>	<u>\$ 4,924</u>

FINANCIAL STATEMENTS

GRAYLING HOUSING COMMISSION  
COMBINED STATEMENT OF NET ASSETS  
March 31, 2005  
=====

**ASSETS**

Current Assets:

Cash	\$ 159,113
Accounts receivable-HUD	18,951
Accounts receivable-tenants	2,362
Investments-unrestricted	48,351
Prepaid expenses	18,981
Inventories	2,475
Due from other programs	<u>62,769</u>

Total Current Assets	<u>313,002</u>
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Property, Plant, and Equipment:

Land	88,873
Buildings	2,359,405
Equipment	183,968
Building improvements	<u>59,732</u>
	2,691,978
Less: accumulated depreciation	<u>( 1,433,036)</u>

Net Property, Plant, and Equipment	<u>1,258,942</u>
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Total Assets	<u><u>\$ 1,571,944</u></u>
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See notes to financial statements

GRAYLING HOUSING COMMISSION  
COMBINED STATEMENT OF NET ASSETS (CONTINUED)  
March 31, 2005  
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Bank overdraft	\$ 36,237
Accounts payable	30,927
Tenant security deposit liability	17,293
Accrued expenses	7,166
Accrued liabilities-other	4,533
Deferred revenues	2,277
Due to other programs	<u>62,769</u>
Total Current Liabilities	161,202
Noncurrent Liabilities:	
Accrued compensated absences	<u>64,494</u>
Total Liabilities	<u>225,696</u>
Net Assets:	
Invested in capital assets	1,258,942
Unrestricted net assets	<u>87,306</u>
Total Net Assets	<u>1,346,248</u>
Total Liabilities and Net Assets	<u>\$ 1,571,944</u>

See notes to financial statements

GRAYLING HOUSING COMMISSION  
**COMBINED STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET ASSETS**  
 Year Ended March 31, 2005  
 =====

**OPERATING REVENUES:**

Dwelling rent	\$ 221,716
Non-dwelling rent	<u>50</u>
Total operating revenues	<u>221,766</u>

**OPERATING EXPENSES:**

Administration	460,229
Tenant services	1,909
Utilities	75,807
Ordinary maintenance and operation	147,142
General expenses	41,455
Extraordinary maintenance	1,587
Casualty losses	( 900)
Housing assistance payments	395,268
Depreciation	<u>82,042</u>
Total operating expenses	<u>1,204,539</u>

Operating income(loss)	<u>( 982,773)</u>
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**NONOPERATING REVENUES:**

Investment interest income	688
Other income	32,873
Capital grants	59,732
Operating grants	<u>813,299</u>

Total nonoperating revenues	<u>906,592</u>
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Change in net assets	( 76,181)
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Net assets, beginning	1,310,552
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Prior period adjustments, equity transfers and correction of errors	<u>111,877</u>
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Net assets, ending	<u><u>\$ 1,346,248</u></u>
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See notes to financial statements

GRAYLING HOUSING COMMISSION  
**COMBINED STATEMENT OF CASH FLOWS**  
 Year Ended March 31, 2005  
 =====

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling and nondwelling rents	\$ 224,595
Cash payments to other suppliers of goods and services	( 730,721)
Cash payments to employees for services	( 317,062)
Cash payments for in lieu of taxes	( 16,983)
Net cash (used) by operating activities	<u>( 840,171)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Adjustments	111,877
Tenant security deposits	( 296)
Operating grants	769,600
Other revenue	<u>32,873</u>
Net cash provided by noncapital financing activities	<u>914,054</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Capital grants	59,732
Payments for capital acquisitions	<u>( 59,732)</u>
Net cash (used) by and related financing activities	<u>          </u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Receipts of interest and dividends	<u>688</u>
Net cash provided by investing activities	<u>688</u>

Net increase(decrease) in cash	74,571
Cash, beginning	<u>84,542</u>
Cash, ending	<u><u>\$ 159,113</u></u>

GRAYLING HOUSING COMMISSION  
**COMBINED STATEMENT OF CASH FLOWS (CONTINUED)**  
 Year Ended March 31, 2005  
 =====

**Reconciliation of cash and cash equivalents  
 per statement of cash flows to the balance  
 sheet:**

Cash	\$ 159,113
Restricted cash	<u>                    </u>
Cash and cash equivalents per balance sheet	<u><u>\$ 159,113</u></u>

**SCHEDULE RECONCILING OPERATING INCOME  
 TO NET CASH FLOW FROM OPERATING  
 ACTIVITIES:**

Operating income(loss)	\$( 982,773)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	82,042
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	( 717)
Prepaid expenses	( 1,966)
Increase (decrease) in liabilities:	
Bank overdraft	36,237
Accounts payable	15,841
Accrued compensated absences	8,343
Accrued payments in lieu of taxes	( 1,897)
Accrued liabilities-other	4,427
Deferred revenues	<u>292</u>
Net cash (used) by operating activities	<u><u>\$( 840,171)</u></u>

See notes to financial statements



GRAYLING HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2005  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Grayling Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

**The Reporting Entity**

The Grayling Housing Commission is a component unit of the City of Grayling, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Grayling on June 23, 1959, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Grayling Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3008, the Housing Commission constructed, maintains and operates 88 units of subsidized housing in the City of Grayling, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 130 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

The Housing Commission also has a Homeownership Program that is classified as the Resident Opportunity and Supportive Services Program. This program ended July 31, 2005.

**Fund Financial Statements**

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The

fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

### **Fund Accounting**

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

### **Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City of Grayling has elected to

apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

### Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

### Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

### Inventories

Inventory is priced using the average cost method.

### Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

### Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Land improvements	15 years
Buildings	40 years
Equipment - portable	5 - 7 years
Furnishings	7 years
Office equipment	7 years

### Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-Fy 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

### Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

### Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation leave. Vacation days earned may be accumulated to the maximum of twenty-four days. Employees with ten years consecutive service may accumulate thirty-six days maximum.

Any employee who terminated prior to completing twelve months of service shall receive no vacation pay. Any employee, who has served twelve months or more, will upon termination, receive payment for any unused vacation at his or her regular hourly rate at the time employment ceases.

- \* Sick pay. Unused sick leave may be accumulated to a total of not more than 816 hours. Annual carry over shall not exceed 720 hours. Employees will be compensated at a rate of \$4.00 per hour annually for every hour unused in excess

of 720 hours. Upon termination the sick leave accumulated up to 720 hours will not be paid.

- \* Personal leave. Each employee shall receive sixteen hours of paid personal time on July 1 of each year. Personal time must be used by the end of the fiscal year or be forfeited.

The amount of accumulated benefits at March 31, 2005, was \$71,660, and is recorded as a liability in the applicable funds.

#### Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

#### Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

#### **NOTE 2: CASH AND INVESTMENTS**

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the March 31, 2005, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository Balances by Category</u>					
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	<u>Carrying Value</u>
Citizens Bank	\$200,000	\$	\$ 8,210	\$208,210	\$207,239
Total Deposits	<u>\$200,000</u>	<u>\$</u>	<u>\$ 8,210</u>	<u>\$208,210</u>	207,239
Change fund					50
Petty cash					<u>175</u>
					<u>\$207,464</u>
Reconciliation to Cash on Balance Sheet					
Cash					\$159,113
Unrestricted investments					<u>48,351</u>
Total					<u>\$207,464</u>

**NOTE 3: RECEIVABLES AND PAYABLES**

**Tenant Accounts Receivable**

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2005, the receivables were \$2,362 with \$-0- estimated as uncollectible. Bad debt expense was \$2,962.

**Accounts Receivables - HUD**

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at March 31, 2005 were as follows:

Housing Choice Voucher Program	\$ 15,697
Resident Opportunity and Supportive Services Program	<u>3,254</u>
	<u>\$ 18,951</u>

### Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 60,511	Low Rent Program	\$ 2,258
Housing Choice		Resident Opportunity	
Voucher Program	2,258	and Supportive	
		Services Program	60,511
	<u>\$ 62,769</u>		<u>\$ 62,769</u>

The capital fund program transferred \$34,622 to the Low Rent Program during the fiscal year ended March 31, 2005.

### **NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2005 was as follows:

	<u>Balance 03/31/04</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance 03/31/05</u>
<b>Low Rent Program</b>			
Land	\$ 88,873	\$	\$ 88,873
Buildings	2,359,405		2,359,405
Furniture, equip. & machinery - dwellings	43,465	1,605	41,860
Furniture, equip. & machinery - administration	116,275	1,605	117,880
	2,608,018	\$ 1,605	2,608,018
Less accumulated depreciation	(1,329,719)	\$ ( 79,089)	(1,408,808)
Total	<u>\$1,278,299</u>		<u>\$1,199,210</u>
<b>Capital Fund Program</b>			
Building improvements	\$	\$ 59,732	\$ 59,732

	<u>Balance</u> <u>03/31/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>03/31/05</u>
<b>Housing Choice Voucher Program</b>				
Furniture, equip. and machinery- administration	\$ 22,678	\$	\$	\$ 22,678
	22,678	\$	\$	22,678
Less accumulated depreciation	( 21,275)	\$ ( 1,403)		( 22,678)
Total	<u>\$ 1,403</u>			<u>\$</u>
<b>Resident Opportunity and Supportive Services Program</b>				
Furniture, equip. & machinery - administration	\$ 1,550	\$	\$	\$ 1,550
	1,550	\$	\$	1,550
Less accumulated depreciation	( )	\$ ( 1,550)	\$	( 1,550)
Total	<u>\$ 1,550</u>			<u>\$</u>
<b>Combined Totals</b>				<u>\$1,258,942</u>

**NOTE 5: CONTRIBUTED CAPITAL**

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended March 31, 2005, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	\$ 1,281,252
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	( 22,310)
Balance, ending	<u>\$ 1,258,942</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations, not included in contributed capital.



## **NOTE 6: OTHER INFORMATION**

### **A. Pension Plan**

Each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after 10 years of service and normal retirement age at 60 years of age. At December 31, 2004, the date of the last completed actuarial evaluation, the Housing Commission's present value of accrued benefits for retirement benefits was \$216,144. The valuation of assets to meet this obligation was \$405,520, therefore the overfunded amount is \$189,376. The Housing Commission computed employer contributions as a percentage of payroll of 8.03%. The Housing Commission made total employer retirement contributions of \$1,372 on covered wages of \$205,051. There are three (5) active members, no vested former member, and no retirees and beneficiaries.

### **B. Current Vulnerability Due to Certain Concentrations**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

### **C. Risk Management and Litigation**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

### **D. Implementation of New Accounting Standard**

As of and for the year ended March 31, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial

statements.

**E. Prior Period Adjustments, Equity Transfers and  
Correction of Errors**

Low Rent Program

To void checks from the prior year	\$ 3,777
Prior period adjustment for Homeownership	( 15,917)
Miscellaneous adjustment	( 937)
Set up prepaid insurance	18,981
Adjust accounts payable to actual	<u>17,190</u>
	<u>\$ 23,094</u>

Housing Choice Voucher Program

Prior period audit adjustment	\$ 34,902
Change of HUD funding	<u>53,881</u>
	<u>\$ 88,783</u>

**NOTE 7: SEGMENT INFORMATION**

The Housing Commission maintains one Enterprise Fund that includes four separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2005, was as follows:

	Low Rent Program	Capital Fund Program	Housing Choice Vouchers	Resident Opportunity and Supportive Services
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>				
Dwelling and nondwelling rents	\$ 221,766	\$	\$	\$
Depreciation	( 79,089)		( 1,403)	( 1,550)
Other operating expenses	( 407,911)		(489,360)	( 225,226)
Operating(loss)	( 265,234)		(490,763)	( 226,776)
Nonoperating revenues:				
Investment earnings	547		141	
Other income	16,956			15,917
Operating grants	94,306	34,622	475,062	209,309
Capital grants		59,732		
Operating transfers	34,622	( 34,622)		
Change in net assets	( 118,803)	59,732	( 15,560)	( 1,550)
Beginning net assets	1,267,517		41,485	1,550
Prior period adjustments	23,094		88,783	
Ending net assets	<u>\$ 1,171,808</u>	<u>\$ 59,732</u>	<u>\$ 114,708</u>	<u>\$</u>

<b>Condensed Statement of Cash Flows</b>				
Net cash provided (used) by:				
Operating activities	\$ ( 126,758)	\$	\$ (484,933)	\$ ( 228,480)
Noncapital financing activities	110,429		537,059	266,566
Investing activities	547		141	
Net increase (decrease)	( 15,782)		52,267	38,086
Beginning cash and cash equivalents	16,352		49,019	19,171
Ending cash and cash equivalents	<u>\$ 570</u>	<u>\$</u>	<u>\$ 101,286</u>	<u>\$ 57,257</u>

SUPPLEMENTARY INFORMATION

GRAYLING HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
 March 31, 2005  
 =====

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 570	\$
Accounts receivable-HUD		
Accounts receivable-tenant	2,362	
Investments-unrestricted	48,351	
Prepaid expenses	18,981	
Inventories	2,475	
Due from other programs	<u>60,511</u>	
Total current assets	<u>133,250</u>	
Property, plant, and equipment:		
Land	88,873	
Buildings	2,359,405	
Equipment	159,740	
Building improvements		<u>59,732</u>
Less accumulated depreciation	<u>2,608,018</u>	<u>59,732</u>
	<u>(1,408,808)</u>	
Net property, plant and equipment	<u>1,199,210</u>	<u>59,732</u>
Total Assets	<u><u>\$1,332,460</u></u>	<u><u>\$ 59,732</u></u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 101,286	\$ 57,257	\$ 159,113
15,697	3,254	18,951
		2,362
		48,351
		18,981
		2,475
<u>2,258</u>		<u>62,769</u>
<u>119,241</u>	<u>60,511</u>	<u>313,002</u>
		88,873
22,678	1,550	2,359,405
		183,968
<u>22,678</u>	<u>1,550</u>	<u>59,732</u>
( 22,678)	( 1,550)	2,691,978
		( 1,433,036)
		<u>1,258,942</u>
<u>\$ 119,241</u>	<u>\$ 60,511</u>	<u>\$ 1,571,944</u>

GRAYLING HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS (CONTINUED)**  
 March 31, 2005

=====

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES and NET ASSETS</b>		
Current liabilities:		
Bank overdraft	\$ 36,237	\$
Accounts payable	30,927	
Tenant security deposit liability	17,293	
Accrued expenses	7,166	
Accrued liabilities-other		
Deferred revenues	2,277	
Due to other programs	<u>2,258</u>	
Total current liabilities	96,158	
Noncurrent liabilities:		
Accrued compensated absences	<u>64,494</u>	
Total liabilities	<u>160,652</u>	
Net Assets:		
Invested in capital assets	1,199,210	59,732
Unrestricted net assets	<u>( 27,402)</u>	
Total net assets	<u>1,171,808</u>	<u>59,732</u>
Total Liabilities and Net Assets	<u><u>\$1,332,460</u></u>	<u><u>\$ 59,732</u></u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$	\$	\$
		36,237
		30,927
		17,293
4,533		7,166
		4,533
		2,277
<u>4,533</u>	<u>60,511</u>	<u>62,769</u>
4,533	60,511	161,202
<u>4,533</u>	<u>60,511</u>	<u>64,494</u>
<u>4,533</u>	<u>60,511</u>	<u>225,696</u>
<u>114,708</u>		1,258,942
<u>114,708</u>		<u>87,306</u>
		<u>1,346,248</u>
<u>\$ 119,241</u>	<u>\$ 60,511</u>	<u>\$ 1,571,944</u>



GRAYLING HOUSING COMMISSION  
**COMBINING STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET ASSETS**  
 Year Ended March 31, 2005  
 =====

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 221,716	\$
Nondwelling rent	<u>50</u>	<u></u>
Total operating revenues	<u>221,766</u>	<u></u>
<b>OPERATING EXPENSES:</b>		
Administration	144,912	
Tenant services	1,909	
Utilities	75,807	
Ordinary maintenance and operation	143,141	
General expenses	41,455	
Extraordinary maintenance	1,587	
Casualty losses	( 900)	
Housing assistance payments		
Depreciation	<u>79,089</u>	<u></u>
Total operating expenses	<u>487,000</u>	<u></u>
Operating income(loss)	<u>( 265,234)</u>	<u></u>
<b>NONOPERATING REVENUES:</b>		
Operating transfers in (out)	34,622	( 34,622)
Investment interest income	547	
Other income	16,956	
Capital grants		59,732
Operating grants	<u>94,306</u>	<u>34,622</u>
Total nonoperating revenues	<u>146,431</u>	<u>59,732</u>
Change in net assets	( 118,803)	59,732
Net assets, beginning	1,267,517	
Prior period adjustments, equity transfers and correction of errors	<u>23,094</u>	<u></u>
Net assets, ending	<u>\$1,171,808</u>	<u>\$ 59,732</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ _____	\$ _____	\$ 221,716
_____	_____	50
_____	_____	<u>221,766</u>
94,092	221,225	460,229
		1,909
	4,001	75,807
		147,142
		41,455
		1,587
395,268		( 900)
<u>1,403</u>	<u>1,550</u>	395,268
		<u>82,042</u>
<u>490,763</u>	<u>226,776</u>	<u>1,204,539</u>
<u>( 490,763)</u>	<u>( 226,776)</u>	<u>( 982,773)</u>
141		688
	15,917	32,873
<u>475,062</u>	<u>209,309</u>	59,732
		<u>813,299</u>
<u>475,203</u>	<u>225,226</u>	<u>906,592</u>
( 15,560)	( 1,550)	( 76,181)
41,485	1,550	1,310,552
<u>88,783</u>	_____	<u>111,877</u>
<u>\$ 114,708</u>	<u>\$ _____</u>	<u>\$ 1,346,248</u>

GRAYLING HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
 Year Ended March 31, 2005  
 =====

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from dwelling and nondwelling rents	\$ 224,595	\$
Cash payments to other suppliers of goods and services	( 171,839)	
Cash payments to employees for services	( 162,531)	
Cash payments for in lieu of taxes	<u>( 16,983)</u>	
Net cash (used) by operating activities	<u>( 126,758)</u>	
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Adjustments	23,094	
Tenant security deposits	( 296)	
Due from/to other funds	( 58,253)	
Operating transfers in (out)	34,622	( 34,622)
Operating grants	94,306	34,622
Other revenue	<u>16,956</u>	
Net cash provided by noncapital financing activities	<u>110,429</u>	
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants		59,732
Payments for capital acquisitions		<u>( 59,732)</u>
Net cash (used) by capital and related financing activities		
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Receipts of interest and dividends	<u>547</u>	
Net cash provided by investing activities	<u>547</u>	
Net increase(decrease) in cash	( 15,782)	
Cash, beginning	<u>16,352</u>	
Cash, ending	<u>\$ 570</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Resident Opportunity and Supportive Services 14.870	Totals
\$	\$	\$ 224,595
( 397,182)	( 161,700)	( 730,721)
( 87,751)	( 66,780)	( 317,062)
		( 16,983)
( 484,933)	( 228,480)	( 840,171)
88,783		111,877
( 2,258)	60,511	( 296)
450,534	190,138	769,600
	15,917	32,873
537,059	266,566	914,054
		59,732
		( 59,732)
141		688
141		688
52,267	38,086	74,571
49,019	19,171	84,542
\$ 101,286	\$ 57,257	\$ 159,113

GRAYLING HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
 Year Ended March 31, 2005

=====

C-3008	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH  
 EQUIVALENTS PER STATEMENT OF CASH  
 FLOWS TO THE BALANCE SHEET:**

Cash	\$	570	\$
Restricted cash			
		<u>          </u>	<u>          </u>
Cash and cash equivalents per balance sheet	\$	<u>570</u>	\$ <u>          </u>

**SCHEDULE RECONCILING OPERATING INCOME  
 TO NET CASH FLOW FROM OPERATING  
 ACTIVITIES:**

Operating income(loss)	\$ ( 265,234)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	79,089	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	2,537	
Prepaid expenses	( 1,966)	
Increase (decrease) in liabilities:		
Bank overdraft	36,237	
Accounts payable	15,841	
Accrued compensated absences	8,343	
Accrued payments in lieu of taxes	( 1,897)	
Accrued liabilities-other		
Deferred revenues	<u>292</u>	
Net cash (used) by operating activities	<u>\$ ( 126,758)</u>	\$ <u>          </u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 101,286	\$ 57,257	\$ 159,113
<u>\$ 101,286</u>	<u>\$ 57,257</u>	<u>\$ 159,113</u>
\$ ( 490,763)	\$ (226,776)	\$ ( 982,773)
1,403	1,550	82,042
	( 3,254)	( 717)
		( 1,966)
		36,237
		15,841
		8,343
4,427		( 1,897)
		4,427
		<u>292</u>
<u>\$ ( 484,933)</u>	<u>\$ ( 228,480)</u>	<u>\$ ( 840,171)</u>

GRAYLING HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
Year Ended March 31, 2005  
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 94,306
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2005	Capital Fund Program	14.872	94,354
	<u>Low Income Public Housing Major - Direct Program</u>		
2005	Housing Choice Vouchers	14.871	475,062
	<u>Low Income Public Housing Nonmajor - Direct Program</u>		
2005	Resident Opportunity and Supportive Services	14.870	<u>209,309</u>
	Total		<u>\$ 873,031</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

## GRAYLING HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE

Year Ended March 31, 2005

=====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ <u>570</u>	\$ <u>          </u>
100	Total cash	<u>570</u>	<u>          </u>
	Receivables:		
122	A/R-HUD other projects		
126	A/R-tenants-dwelling rents	<u>2,362</u>	<u>          </u>
120	Total receivables, net of allowance for doubtful accounts	<u>2,362</u>	<u>          </u>
	Current Investments:		
131	Investments-unrestricted	<u>48,351</u>	<u>          </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	18,981	
143	Inventories	2,475	
144	Interprogram due from	<u>60,511</u>	<u>          </u>
	Total other current assets	<u>81,967</u>	<u>          </u>
150	Total current assets	<u>133,250</u>	<u>          </u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	88,873	
162	Buildings	2,359,405	
163	Furn, equip & mach-dwellings	41,860	
164	Furn, equip & mach-admin.	117,880	
165	Building improvements		59,732
166	Accumulated depreciation	<u>(1,408,808)</u>	<u>          </u>
160	Total fixed assets, net of accumulated depreciation	<u>1,199,210</u>	<u>59,732</u>
180	Total noncurrent assets	<u>1,199,210</u>	<u>59,732</u>
190	Total Assets	<u>\$ 1,332,460</u>	<u>\$ 59,732</u>



Housing Choice Vouchers 14.871	Resident Opportunity and Supportive Services 14.870	Totals
\$ 101,286	\$ 57,257	\$ 159,113
<u>101,286</u>	<u>57,257</u>	<u>159,113</u>
15,697	3,254	18,951
<u>15,697</u>	<u>3,254</u>	<u>2,362</u>
15,697	3,254	21,313
<u>15,697</u>	<u>3,254</u>	<u>21,313</u>
		48,351
		18,981
2,258		2,475
<u>2,258</u>	<u>2,258</u>	<u>62,769</u>
2,258		84,225
<u>2,258</u>	<u>2,258</u>	<u>84,225</u>
119,241	60,511	313,002
<u>119,241</u>	<u>60,511</u>	<u>313,002</u>
		88,873
		2,359,405
22,678	1,550	41,860
		142,108
( 22,678)	( 1,550)	59,732
<u>( 22,678)</u>	<u>( 1,550)</u>	<u>( 1,433,036)</u>
		1,258,942
		1,258,942
<u>\$ 119,241</u>	<u>\$ 60,511</u>	<u>\$ 1,571,944</u>

GRAYLING HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2005  
 =====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES and NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
311	Bank overdraft	\$ 36,237	\$
312	Accounts payable<=90 days	15,841	
322	Accrued compensated absences	7,166	
333	Accounts payable-other government	15,086	
341	Tenant security deposits	17,293	
342	Deferred revenues	2,277	
346	Accrued liabilities-other		
347	Interprogram due to	<u>2,258</u>	
310	Total current liabilities	<u>96,158</u>	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>64,494</u>	
350	Total noncurrent liabilities	<u>64,494</u>	
300	Total liabilities	<u>160,652</u>	
	Net Assets:		
508.1	Invested in capital assets	<u>1,199,210</u>	
508	Total invested in capital assets	1,199,210	
512.1	Unrestricted net assets	<u>( 27,402)</u>	<u>59,732</u>
513	Total Net Assets	<u>1,171,808</u>	<u>59,732</u>
600	Total Liabilities and Net Assets	<u>\$ 1,332,460</u>	<u>\$ 59,732</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Total</u>
\$	\$	\$
		36,237
		15,841
		7,166
		15,086
		17,293
		2,277
4,533		4,533
<u>4,533</u>	<u>60,511</u>	<u>62,769</u>
<u>4,533</u>	<u>60,511</u>	<u>161,202</u>
		<u>64,494</u>
		<u>64,494</u>
<u>4,533</u>	<u>60,511</u>	<u>225,696</u>
		<u>1,199,210</u>
		1,199,210
<u>114,708</u>		<u>147,038</u>
<u>114,708</u>		<u>1,346,248</u>
<u>\$ 119,241</u>	<u>\$ 60,511</u>	<u>\$ 1,571,944</u>

GRAYLING HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2005

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 221,716	\$
704	Tenant revenue-other	<u>50</u>	
705	Total tenant revenue	221,766	
706	HUD PHA grants	94,306	34,622
706.1	Capital grants		59,732
711	Investment income-unrestricted	547	
715	Other revenue	<u>16,956</u>	
700	Total revenue	<u>333,575</u>	<u>94,354</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	73,525	
912	Auditing fees	3,500	
914	Compensated absences	8,343	
915	Employee benefit contributions-adm.	27,894	
916	Other operating-administrative	31,650	
	Tenant Services:		
924	Tenant services-other	1,909	
	Utilities:		
931	Water	15,174	
932	Electricity	36,571	
933	Gas	24,062	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	50,427	
942	Ordinary maint & oper-mat'ls & other	45,467	
943	Ordinary maint & oper-contract costs	28,219	
945	Employee benefit contributions	19,028	
	General expenses:		
961	Insurance premiums	23,401	
963	Payments in lieu of taxes	15,086	
964	Bad debt - tenant rents	<u>2,968</u>	
969	Total operating expenses	<u>407,224</u>	
970	Excess operating revenue over operating expenses	<u>( 73,649)</u>	<u>94,354</u>

Housing Choice Vouchers 14.871	Resident Opportunity and Supportive Services 14.870	Total
\$	\$	\$ 221,716
		50
475,062	209,309	221,766
141		813,299
		59,732
	15,917	688
		32,873
475,203	225,226	1,128,358
66,792	39,649	179,966
		3,500
20,959	27,131	8,343
6,341	154,445	75,984
		192,436
		1,909
		15,174
		36,571
		24,062
		50,427
		45,467
	4,001	32,220
		19,028
		23,401
		15,086
		2,968
94,092	225,226	726,542
381,111		401,816

GRAYLING HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2005  
 =====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Expenses continued:</b>		
	Other expenses:		
971	Extraordinary maintenance	1,587	
972	Casualty losses-noncapitalized	( 900)	
973	Housing assistance payments		
974	Depreciation expense	<u>79,089</u>	
	Total other expenses	<u>79,776</u>	
900	Total expenses	<u>487,000</u>	
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	( 153,425)	94,354
	<b>Other Financing Sources(Uses):</b>		
1001	Operating transfers in (out)	<u>34,622</u>	( 34,622)
1000	Excess (deficiency) of operating revenue over(under) expenses	( 118,803)	59,732
1103	Beginning Net Assets	1,267,517	
1104	Prior period adjustments, equity transfers and correction of errors	<u>23,094</u>	
	Ending Net Assets	<u>\$ 1,171,808</u>	<u>\$ 59,732</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
		1,587
		( 900)
395,268		395,268
<u>1,403</u>	<u>1,550</u>	<u>82,042</u>
<u>396,671</u>	<u>1,550</u>	<u>477,997</u>
<u>490,763</u>	<u>226,776</u>	<u>1,204,539</u>
( 15,560)	( 1,550)	( 76,181)
<u>          </u>	<u>          </u>	<u>          </u>
( 15,560)	( 1,550)	( 76,181)
41,485	1,550	1,310,552
<u>88,783</u>	<u>          </u>	<u>111,877</u>
<u>\$ 114,708</u>	<u>\$           </u>	<u>\$ 1,346,248</u>

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Housing Commissioners  
Grayling Housing Commission  
Grayling, Michigan

We have audited the financial statements of the business-type activities of the Grayling Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued our report thereon dated July 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on



Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*  
Grayling Housing Commission  
Page Two

**Compliance and Other Matters (continued)**

compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Housing Commission, in a separate letter dated July 27, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Sany & Associates, CPA, PC*

July 27, 2005

**Report on Compliance with Requirements  
Applicable To Each Major Program and  
Internal Control over Compliance  
in Accordance with OMB Circular A-133**

Board of Housing Commissioners  
Grayling Housing Commission  
Grayling, Michigan

**Compliance**

We have audited the compliance of the Grayling Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2005. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on the Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements  
Applicable to Each Major Program and  
Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Grayling Housing Commission  
Page Two

**Compliance (continued)**

In our opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2005.

**Internal Control Over Compliance**

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated July 27, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Sandy E. Staudt, CPA, PC*

July 27, 2005

GRAYLING HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
March 31, 2005  
=====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
  - a. Material weakness identified No
  - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
  - a. Material weakness identified No
  - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

CFDA Number	Federal Program	Amount Expended	Major Program	Compliance Requirement	Questioned Costs	Audit Finding
14.850	Low Rent Public Housing	\$ 94,306	No	O	N/A	N/A
14.872	Capital Fund Program	94,354	No	O	N/A	N/A
14.871	Housing Choice Vouchers	475,062	Yes	O	N/A	N/A
14.870	Resident Opportunity and Supportive Services	209,309	No	O	N/A	N/A
<b>Total</b>		<u>\$ 873,031</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

GRAYLING HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
March 31, 2005  
=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

GRAYLING HOUSING COMMISSION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
March 31, 2005  
=====

NONE

GRAYLING HOUSING COMMISSION  
**ADJUSTING JOURNAL ENTRIES**  
MARCH 31, 2005  
=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
-----------------------	---------------------	--------------	---------------

LOW RENT PROGRAM:

(1)

1211	Prepaid insurance	\$18,980.92	
6010	Prior period adjustment		\$18,980.92
	To accrue insurance paid		
	before the year end.		

(2)

2111	Accounts payable	17,189.71	
6010	Prior period adjustment		17,189.71
	To adjust accounts payable		
	balance to correct balance		
	as of March 31, 2005.		

(3)

4198	Compensated absences	8,342.55	
2140	Accrued compensated		
	absences-short		833.96
2141	Accrued compensated		
	absences-long		7,508.59
	To adjust compensated		
	absences to correct		
	balance as of March 31,		
	2005.		

GRAYLING HOUSING COMMISSION  
INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2005



GRAYLING HOUSING COMMISSION  
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MARCH 31, 2005

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**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
Grayling Housing Commission

We have audited the financial statements of the Grayling Housing Commission ("Housing Commission") as of and for the year ended March 31, 2005, and have issued our report, thereon, dated July 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were three audit adjusting journal entries and no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

*Sandy E. VandenBerg, CPA, PC*

July 27, 2005

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49686

(231) 946-8930

Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners  
Grayling Housing Commission

We have audited the financial statements of the Grayling Housing Commission ("Housing Commission") as of and for the year ended March 31, 2005, and have issued our report, thereon, dated July 27, 2005. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, P.C.*

July 27, 2005

GRAYLING HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
March 31, 2005  
=====

**Invoice markings**

The Housing Commission invoices are currently not stamped or marked after approval for payment.

We recommend that the Executive Director stamp the invoices with a "approve or deny" stamp before the check is prepared. Also, before the check is mailed to the payee, the invoice should be marked with a "paid and date paid" stamp. These markings will prevent an invoice from being paid twice and provide another control on approval.

**Copies of invoices**

During our of test of disbursements it was noted that of sixty(60) invoices tested, eight(8) of the invoices were copies of the original invoice.

We recommend that the Housing Commission keep on file the original invoice.

**Prior year comments and recommendations**

We would like to commend management and the board for implementing and resolving all of the comments we made in the prior year letter.

GRAYLING HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
March 31, 2005  
=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<b>LOW RENT PROGRAM</b>			
(1)			
1211	Prepaid insurance	\$ 18,980.92	
6010	Prior period adjustment To accrue insurance paid before the year end.		\$ 18,980.92
(2)			
2111	Accounts payable	17,189.71	
6010	Prior period adjustment To adjust accounts payable balance to correct balance as of March 31, 2005.		17,189.71
(3)			
4198	Compensated absences	8,342.55	
2140	Accrued compensated absences-short		833.96
2141	Accrued compensated absences-long To adjust compensated absences to correct balance as of March 31, 2005.		7,508.59